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MEMORANDUM FOR: The Record

S-6001

This material was prepared in response to a request from another government official. Because of its possible interest to others in the Washington economic community, we are sending it to several other recipients.

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8 March 1974
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(8 March 1974)

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

CIA No. 8014
8 March 1974

MEMORANDUM FOR: Mr. William Quandt
Staff Member
National Security Council
Executive Office Building

SUBJECT : Jordan's Economic Prospects

Attached for your use as background for King Husayn's visit is an overview of Jordan's economic outlook prepared by OER. We plan to publish a more detailed memorandum on the economy in the near future. We are sending the attached material to other interested officials in the Washington economic community.

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Attachment:
As stated above

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CIA No. 8014

Jordan's Economic Prospects

Husayn's visit to Washington next week is likely to focus on increased levels of US support for Jordan's ambitious military modernization program.

Plans formulated before the October war to modernize and re-equip Army and Air Force units are being pressed with renewed vigor by the King. The program projects the purchase of a number of new weapons systems and support facilities. US assistance of \$60 million in budget support and \$40 million in Military Assistance Program (MAP) funds together with Arab grants of \$125 million will be needed in 1974 to cover initial outlays for this new equipment. The strain on the budget of absorbing and supporting military modernization, however, and the prospect of cost-of-living hikes later this year are such that we expect a request for additional financial assistance.

Jordan emerged from the October war in relatively good financial shape. The Kingdom suffered no physical damage while the military costs of Jordanian participation in the conflict were minimal -- only \$5-\$10 million.

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The war did disrupt economic activity. Commercial activity almost came to a halt during the fighting and was slow to revive following hostilities. Loss of customs duties and fees reduced tax revenues by about \$6 million. Scarcities developed of major agricultural imports such as tea, coffee, sugar, and rice.

Jordan was more than compensated for these war losses by the resumption of Kuwaiti Khartoum payments which totalled \$29 million in 1973. The budget deficit was about \$33 million, roughly half the level projected prior to the war. The anticipated balance of payments deficit was turned into a surplus and foreign exchange reserves increased \$54 million to \$325 million at the end of 1973, the equivalent of more than a years imports.

Economic prospects for 1974 are good. The anticipated receipt of \$225 million in Arab and US aid, another strong export performance, and an improved investment climate will ease the military expenditure burden. Industrial activity and construction are rising and trade is booming. Phosphate rock prices have jumped from \$14-\$16 per ton to \$37.50 - \$50.000 per ton in the past year. Exports in 1974 are projected at 1.7 million tons, a goal that seems reasonable if the expansion

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project at El Hasa is completed in time. Export earnings from phosphates could quadruple to \$60 million if world demand holds. Cement and agricultural exports also are slated to rise.

The outlook for agriculture is bright for 1974, unlike the disastrous performance last year. Rainfall during the autumn and winter months was above normal. A record cereal crop of 290,000 tons is predicted in spite of shortages of fertilizer and herbicides. This should substantially reduce demand for wheat and feed grain imports in 1974.

Inflation continues to be the most serious economic problem facing the government. Consumer prices shot up 18.5% during 1973, led by a 34% rise in food prices. Military disturbances during early February of this year were a direct consequence of the erosion in purchasing power suffered by army enlisted personnel. Pay raises have been granted to the military, and civilian employees are also slated for a raise. These salary increases have been included in the 1974 budget. Nevertheless, if inflationary pressures persist, added wage demands can be expected. Increased food production should permit some relief in food prices. Heavy dependence on imports

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and the upward movement of prices of imported intermediate goods and manufactures, however, will continue to push up the cost of living index.

The momentum from ongoing economic development projects also will add to Jordan's import bill. Peace negotiations have improved the investment climate. Petroleum supplies and energy related problems which are restricting development in many countries will not affect Jordan. The government's strong bargaining position vis a vis TAPLINE and close relations between Saudi and Jordanian leaders will continue to insure uninterrupted supplies of low priced crude oil. Development outlays will probably total around \$100 million. Over \$45 million in new loans have already been pledged by West Germany, Japan, and Iran. New projects include an \$11 million telecommunications complex and \$13.5 million for the Southern Ghor Irrigation Project.

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